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• Buying for R&D • WEFA on transportation rates
• Value-added bearings • Murray on indemnity clauses

THE BUYER'S MAGAZINE ®

JUNE 1990

Merger combines great bloodlines

Left to right
Earle M Jorgensen, chairman
Neven C Hulsey, President and CEO
Lonnie R Terry, Exec VP and COO

Special Section
Steel Service Center Institut

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43 Merger combines great bloodlines

The Earle M. Jorgensen Co. and the Kilsby-Roberts Holding Co. have merged, forming the largest independently owned metal products distributor in the country. *PurchasingWorld* takes a look at the combination of their strengths and assets: Jorgensen in bars and Kilsby-Roberts in tubing, the geographic reach of their supply operations, and the shared management experience in metal handling and processing.

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New services from bearing manufacturers mean greater value for buyers and their companies. Buyers can now find information on maintenance readily available to make their purchases last longer.

Earle M. Jorgensen, chairman of the newly combined Jorgensen and Kilsby-Roberts. Page 43

Steel service centers offer their customers more than ever before. Page 27

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Capacity is increasing, and demand is not keeping pace: for the near future, buyers will enjoy ample supply and easing prices in this important market.

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Whether you buy from members of the Steel Service Center Institute or not, knowing what this vital organization is and does can be valuable. *PurchasingWorld* offers a special section devoted to information on services from the institute and its members, with emphasis on the new attitudes on partnerships and further processing for value-added service.

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PurchasingWorld

Killen wins Shipman medal

Dr. Ken Killen, for several years a *PurchasingWorld* columnist, was presented the J. Shipman Gold Medal Award in ceremonies at the 75th annual National Association of Purchasing Management banquet May 1 in New Orleans.

The Shipman medal, highest award in purchasing, is given to an outstanding member of the purchasing profession who has rendered it great service.

Dr. Killen began his business career in purchasing with the Kroger Company in Cincinnati, buying equipment, services and MRO supplies, managing transportation and value analysis projects, and a warehouse operation. For the past 25 years, he has been a college instructor (now professor) first at Dyke College in Cleveland, and now at Cuyahoga Community College's western campus (also in Cleveland). He holds a BS in Administration from Miami University, an MBA in Economics from Xavier University, and a Ph.D. in Education from Nova University.

Dr. Kenneth Killen

In his acceptance speech, salted with the trademark Killen humor, he thanked his wife for her support, and recounted his experiences in Boy Scouting—where he earned the rank of Eagle Scout in four years—which gave him a sense of purpose in life. He still is involved with scouting, when he's not behind the lectern as professor or traveling speaker on purchasing topics.

Dr. Killen has a 31-year association with purchasing, 23 of which have been as a member of an NAPM-affiliated association (District VI). He has held office in the Cleveland PMA as second and first vice president, president, member of the board of directors and director of national affairs.

In related activities, he has acted as a consultant, speaker (the Purchasing Association of Akron acknowledged him as "speaker of the decade"), seminar leader, writer/author, and a reviewer of Dobler, Lee & Burt's well-known purchasing text.

Dr. Killen is recognized as a co-founder of District VI's purchasing educators group, and received District VI's Professional Development Man of the Year award as well as its Ted Thompson Purchasing Educators award.

In his "private" life, Killen has not only been active in scouting, but in United Way campaigns, local political bodies, and has served as president of Toastmasters International. He is a member of the Ohio Speaker's Forum and the National Speaker's Association.

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Money's role in today's confusing economy

Recent data releases have mystified many analysts as to the current status of the economy. In general, it appears that the data on economic performance continues to be mixed, though gravitating to the slow side, while price indexes surprisingly signal inflationary pressures.

Looking at the money supply provides some answers on the economy's status. Though in the long-run changes to the stock of money only influence price levels, most economists acknowledge that in the short-run, money alters both employment and output. Currently there is no consensus as to the lag between a monetary policy change and its impact on output, but a conservative guess would place it between three and eighteen months.

Recent monetary policy: through its open market operations the Federal Reserve tightened policy from late 1986 until late 1987, eased until the spring of 1988, then reestablished a more restrictive policy. This tighter monetary policy lasted approximately one year. Between the spring of 1988 and spring of 1989, the Federal funds rate (the rate banks charge each other for overnight loans) signaled this monetary tightening by rising over three percentage points. The Federal funds rate exists as the base rate to which other market rates are anchored. For example, the prime rate (the base rate on corporate loans from commercial banks) has traditionally remained 150 basis points (1.5%) above the federal funds rate. Growth in the monetary aggregates, especially the most closely watched definition of money - M2, also reflected Fed tightness during this time.

Given this monetary scenario and understanding the lag involved, it is clear why the U.S. economy has experienced a period of slow growth since mid-1989. Two things however, must not be overlooked. Since the spring of 1989 the Federal funds rate has fallen over 1.5%, and M2 growth has surged to the top of its target cone. This looser monetary posture bodes well for economic performance latter in the year, with some data already implying as much (see Datatrak).

The worry now is that recent inflation numbers might incite a change in Fed policy, stimulating a new round of rate hikes. This seems unlikely for the time being, given Fed Chairman Alan Greenspan's track record of gradualism and the appearance that the latest round of troublesome inflation numbers are the result of shocks, not the indication of any takeoff or long-run trend.

Though inflation as reported by the consumer price index (CPI) has advanced sharply during the first quarter of 1990, the producer price index (less food and energy) has been trending gradually downward since last summer. This is important for two reasons, the most obvious of which is that commodity prices should remain stable. In addition, some analysts view the producer price index as a rough indicator of forthcoming inflation via the supply transmission process. If this is true, CPI levels should moderate over the next six months.

The Fed momentarily finds itself at a crossroads. If the Federal Open Market Committee decides that the benefits of movement toward zero inflation do in fact outweigh the costs, then at the next FOMC meeting in July, monetary policy may in deed be tightened. This scenario seems unlikely. Expect the Bush Administration to influence the Fed to maintain monetary policy as is, allowing for continuation of the economy's soft-landing recovery already underway.

By John Sheridan

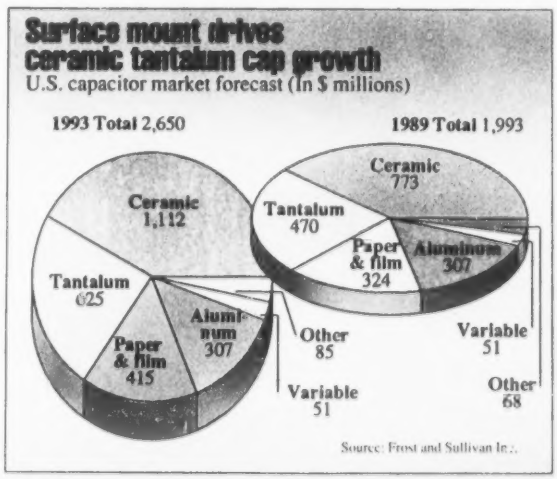
Capacitor market down

OVERVIEW: Reduced defense procurement, coupled with the economy's overall slow growth, are working to restrict capacitor sales. An overabundance of suppliers, along with this drop in demand, are creating a buyers market that is expected to last through year-end. The longer-term view on capacitors remains favorable for buyers. Rising industrial capacitor usage, advancing consumption of capacitors by office and equipment OEMs, and continued capacitor usage in U.S. auto production should offset declines in defense purchases. Moreover, globalization trends, productivity investment and capital expenditure increases are expected to catapult the capacitor industry through 1993. According to analysts from Frost & Sullivan, New York, the market will grow from $1.99 billion in 1989, to $2.7 billion in 1993.

SUPPLY: Intense competition among foreign and domestic suppliers is likely to reduce by half the number of domestic capacitor producers over the next five years. Throughout the 1990s, industry and product positioning will be the pinnacle factors for capacitor suppliers. At times, supply shortages may occur as suppliers realign themselves when market niches appear.

DEMAND: Overcapacity and excess supply should dictate price movements over the next few years. A recent study from Technology Forecasters reports that capacitor buyers select suppliers based on timely delivery, price, off-the-shelf availability, quality and service.

OUTLOOK: Though ceramic capacitors can function at a higher temperature, they fail to possess as high a capacitance as tantalum caps, while tantalum caps fall short of aluminum cap capacitance levels. As a result, there is heavy research and development in higher frequency ceramic capacitors. New innovations utilizing ceramic caps should appear relatively soon, which could stimulate even lower prices. Buyers will also benefit from quality and efficiency improvements to existing ceramic, tantalum and aluminum capacitors.



Soda ash demand growing

The increasing number of traditional end-users, the chemicals application in flue gas desulfurization and its increasing use as a replacement for caustic soda have resulted in a growing demand for soda ash over the past two years and it's not likely to weaken any time soon.

To accommodate demand for soda ash as a replacement for caustic soda, General Chemical Corporation is undertaking two new programs. The company is now capable of either supplying liquid soda ash from regional centers or installing hydrators at user facilities.

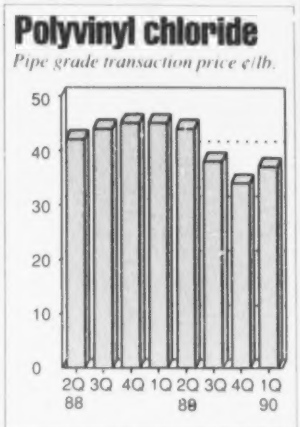
Zinc prices are stabilizing

The steady price climb of the first quarter seems to have subsided. Supply disruptions, Cominco's Sullivan mine closure along with start-up problems at its Red Dog Mine, plus greater-than-anticipated demand from automotive and construction markets, combined to promote a 20% jump in price from January. Producer prices for high-grade zinc are now around 80 cents/pound.

Though inventories are relatively tight, supply conditions are improving which should restrain any future price advance. The current price level appears to be the result of speculation, more so than any long-run fundamental supply and demand imbalance.

PVC prices increase again

Industry leader, Occidental Chemical Company, has called for a new 1¢/lb. increase effective May 1, which should be supported given the spring's traditionally strong demand. This follows the company's widely accepted call for a 2¢ increase in March and 1¢ increase in April.



Over the near-term, polyvinyl chloride producers will continue to recoup some lost margins from last year, when polymer was falling faster than monomer. Marketing managers, however, should anticipate a price slide during the second half of 1990, when 1.5 billion pounds of new capacity come on line.

Aluminum shows some firming

Primary aluminum production finished strong in March. The first quarter annual rate of production was only slightly below 1989's level. Though the slowdown continues to exist for primary producers and service centers, numbers appear to be improving for both. Ingot prices are firming, but ample stock by producers and distributors, along with increasing production capacity should temper any potential price rise.

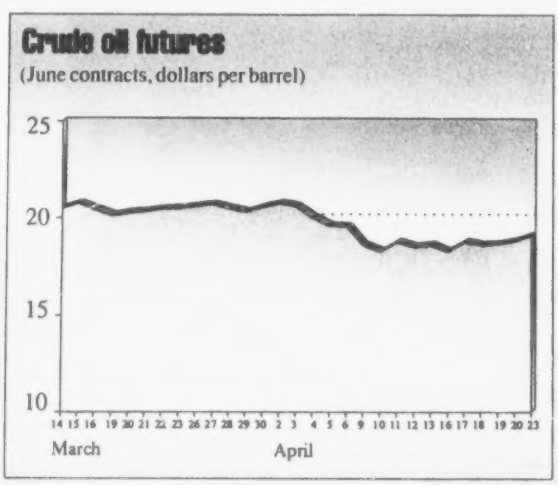
Petroleum in the 1990s

OVERVIEW: Estimates by major oil analysts and OPEC, forecast the free world's petroleum requirements to be 56.4 million barrels a day (mb/d) by the end of the century. This is a significant jump from the 49.5 mb/d required in 1988. Total oil equivalent energy requirements in the year 2000 are anticipated to be around 120 mb/d, placing the burden on oil to be approximately 47% of that total. This proportion however, is dependent on relative fuel prices, attitudes concerning nuclear power, the burning of fossil fuels and potential fuel efficiency improvements.

DEMAND: A rise in energy consumption is inevitable given the continuing rise in population. Perpetual demands from industrialized economies, combined with future needs of developing societies, will also spur additional demand.

SUPPLY: Supplies from non-OPEC sources will remain stagnant over the next 10 years. The cartel countries meanwhile, should increase their output by 10%. The industry looks to be on the verge of a new investment cycle, with OPEC beginning to undertake major downstream investments in transport, refining and marketing, while major oil companies search upstream for new reserves. This could lead to joint ventures, as the cartel has the reserves, while the major oil companies possess the technical expertise, market outlets and money.

OUTLOOK: The share of petroleum supplied by OPEC is expected to increase throughout the 1990s, prompting the question regarding future prices. The experience of the 1980s, however, should temper any unjustified price decisions of the cartel. Following the price escalation of 1979, world oil consumption fell 10% through 1983, and it took until 1988 for suppliers to regain this lost ground. With growing emphasis on research dealing with fuel substitution and efficiency improvements, petroleum prices, allowing for inflation, should remain stable. The real price of crude should remain between $18.50 and $19.50 a barrel.



Caustic soda tags increase

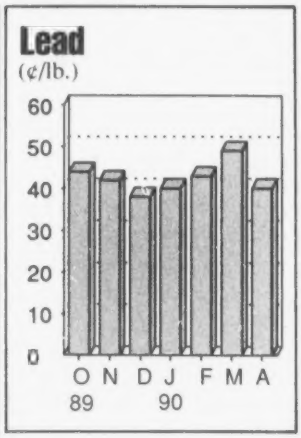
Chloralkali producers say caustic soda demand remains strong, and they are not worried about soda ash's substitutability. Though soda ash might take away some of the demand for caustic soda, producers believe that most caustic customers will remain, unless caustic soda prices increase to $400 or more per ton.

After the April 1 price increase of $5-$25/ton, producers placed regular-grade caustic soda between $300-$320/ton, depending upon geographic location.

The performance of the chloralkali industry is reliant upon caustic soda and chlorine. Demand for polyvinyl chloride (PVC), the largest end-use of chlorine, remains strong. However, if chlorine sales for PVC fall, on top of the already declining use of chlorine in the production of pulp and paper, caustic prices could tighten significantly.

Lead supplies arouse concern

Lead prices are returning to more normal levels, following near-record highs in March, nearly 60¢/lb. on the London Metal Exchange. Though the supply problems which forced the March price run-up are currently under control, they endure as sources of potential trouble. Stocks remain tight. Battery makers, accounting for roughly 80% of lead buyers, enter into their heavy buying period in late-summer. If



stocks aren't there, battery makers could incite another round of rising prices.

Asphalt value, shipments rising

According to a recent study by the Freedonia Group of Cleveland, asphalt product shipments are expected to increase 3.2% annually through 1994, reaching a level of 44.4 million tons. The value of these shipments is expected to rise even faster, maintaining a 7% annual growth rate. Non-paving asphalt, whose shipments are expected to grow less than 2% annually, should experience higher value growth than paving asphalt, whose shipments are supposed to increase nearly 4% annually. The value of non-paving asphalt is forecast to increase 6.4% per year to $5.1 billion in 1994. Conversely, the value of shipments for paving asphalt in 1994 is expected to reach a level of $4.3 billion, roughly 45% of the total value for asphalt product shipments.

Furniture industry to bolster plastics demand

The furniture industry is expected to increase its demand for plastic resins 4.7% annually over the next five years, achieving a demand level of 1.6 billion pounds in 1994. Though furniture manufacturing already relies heavily on plastics, the price and performance of plastics, relative to competitive materials, will move the material into an even stronger position.

The Freedonia Group Inc., of Cleveland, anticipates research and development breakthroughs in plastics processing and properties, increases in home remodeling, and a healthy furniture market to stimulate further utilization of plastics in the furniture industry. The major reason for continued health in the furniture market is the need for office furniture in the rapidly expanding service sector.

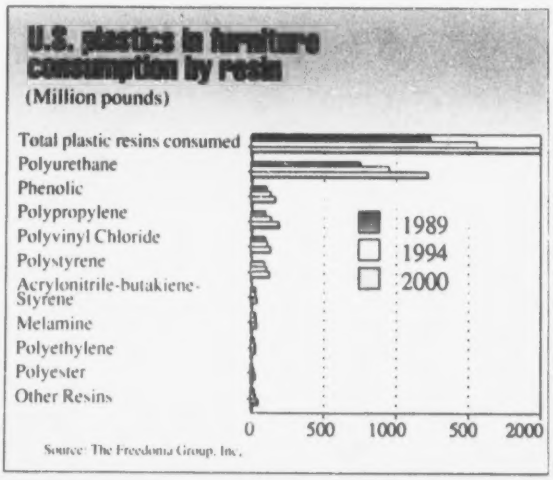
Polyurethane, which accounted for over 60% of the 1.2 billion pounds of plastic resins consumed in 1989 by the furniture industry, will continue to perform well by penetrating further into mattress, bedding, cross-sectional and cushion applications.

The report predicts that polyester will be the resin of strongest future growth, due primarily to its small base and a resurgence in upholstered furniture. Polyester demand could increase by as much as a 11% per year through 1994.

Though the furniture sector will be increasing consumption at a quick pace, supply conditions for plastics resins are expected to remain calm, given current excess capacity and new production facilities soon to come on-line.

In terms of end use, the as-yet-underdeveloped market of partitions and other fixtures should experience the greatest growth.

PurchasingWorld offers additional information on the chemical and plastics industry in a feature article in this issue.



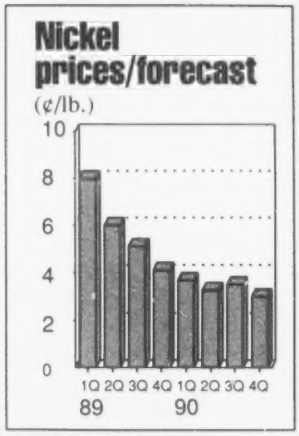
Copper prices to fall

Shearson Hutton Lehman Ltd.'s "Annual Review of the World Copper Industry 1990" forecasts a gentle downward drift over the next 18 months for copper prices. Though supply disruptions are expected to continue for individual mines, with high utilization rates, labor negotiations and technical problems existing as sources of potential conflict, no threatening composite disruptions are anticipated. Shearson believes copper prices will trend toward $1.20/lb. for the first-part of 1990, then gravitate down toward $1.10 by year-end. Further drops, to possibly 95 ¢/lb., could occur in 1991, primarily due to new additions in mine capacity beginning operation.

Hydrogen peroxide demand expands

The U.S. demand for hydrogen peroxide is anticipated to expand 7.8% annually over the next five years. The level demanded will increase from 432 million pounds in 1989, to 630 million pounds in 1994. Driven by tight supplies and increasing demand, the market value for hydrogen peroxide, as reported in a recent study by the Freedonia Group, Cleveland, is expected to grow 12% annually, through 1994.

Many factors are working to promote this increase in demand, but most notable are the environmental benefits.



Nickel price to continue slide

Despite reduced production and a comeback in stainless steel production, the oversupply of nickel is not expected to diminish any time soon. The minor rally in January and February has fizzled, and it is unlikely that nickel demand will change directions. Nickel demand depends to a large degree on autos, housing and durable goods. Though the U.S. economy is stronger-than-expected, the outlook for big ticket items which require financing remains quite bearish. Many analysts see the price of nickel falling below $3/lb. by year-end. That would put nickel over 50% below its year-ago price.

Excess styrene supply foreseen

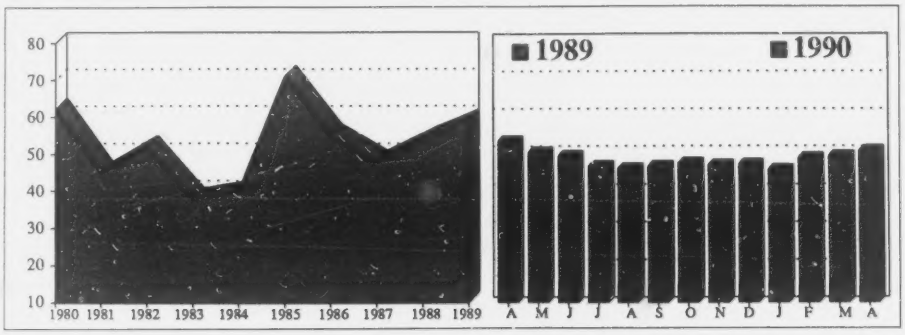
The tight supply conditions in styrene appear to be no more than a short-term aberration. Spot prices, which had been rising over the past few months have since stabilized, and expected capacity additions soon to appear are working to hold down contract prices.

BUSINESS DATATRAK

by John Sheridan, chief economics editor

N. A. P. M. business barometer

Based on five indicators (employment, inventories, new orders, production, vendor performance)



KEY ECONOMIC TRENDS

Signs of recovery lead to cautious optimism

Economics is often a dismal science, but analysts wanting to target the negative are overlooking some very important signals.

Retail sales were down slightly in March, and on the surface this appears less than positive. However, without the drag applied by autos, retail sales have performed admirably this year; up 1.1% in January, 1.5% in February, and down only slightly in March. Furthermore, with a later-than-normal Easter season, retail sales should be back strong in April.

This is not to downplay problems facing the auto industry, but their dilemma is multifaceted. For instance, a Chrysler study reported that the average new car buyer saves for over three years to afford a downpayment, then needs to take out a five year car loan. These are not minor drawbacks. Worse yet, reports are that many banks have recently raised new car loan rates, though the prime rate and federal funds rate remain unchanged. Tighter lending standards have the potential to dampen new car sales further, but a new round of advertising and incentives is about to get underway, working to neutralize the effects of tighter credit.

Explicit strength in the economy is most clearly seen through the unemployment figure and a pick-up in manufacturing. The civilian unemployment rate fell to 5.2% in March, after ten months at 5.3%. The drop was attributed mainly to continued growth in service payrolls and government's hiring of census workers. Though unsustainable, the rate clearly signals no employment problems, especially since manufacturing production is rebounding.

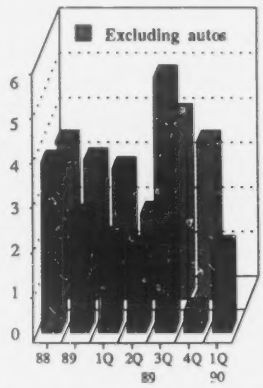
Marginal increases in both industrial production and capacity utilization during March, the fact that consumer spending is increasing at nearly a 2% annual rate, along with increases in durable goods orders during the past two months, all reflect an economy pulling itself out of a period of slow growth. Moreover, some analysts believe corporate earnings are better than they currently appear since many of the earnings reports first out represent those industries hardest hit by the slow growth economy.

The fact that inflation still exists doesn't mean that the soft-landing scenario has failed. Quite the contrary, as Fed Chairman Greenspan's objective has been to get inflation under control without throwing the economy into recession. The overabundance of theory based zero

Leading Indicators

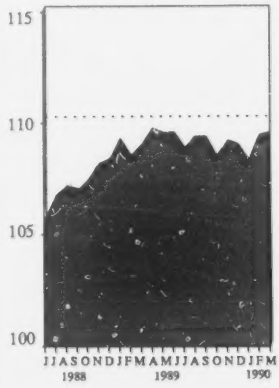
Consumer spending

Percent change, s.a.a.r.



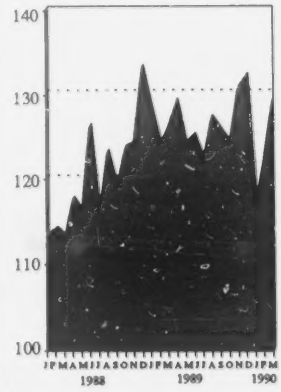
Manufacturing production

Seasonally adjusted index of manufacturing production, 1987=100



Durable goods

In billions of dollars



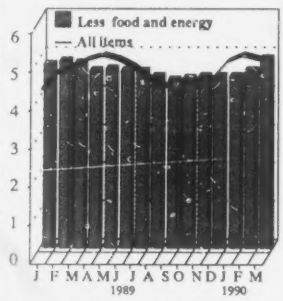
Source: The Federal Reserve Bank of Cleveland and the Wall Street Journal

inflation literature, without any accompanying cost/benefit analysis utilizing historical data, holds little value. Never has inflation been reduced significantly without the economy experiencing a recession. Finally, though the Fed is independent within the government, it is in no position to go against the wishes of the Bush Administration, which desires solid growth and an accommodating monetary policy. All this favors a feeling of cautious optimism for near-term economic performance.

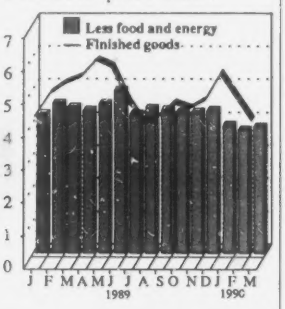
CURRENT PRICES

Inflation

Consumer price index



Producer price index



Source: Federal Reserve Bank of Cleveland

Mixed signals disguise trend

The two monthly barometers of inflation, the consumer price index (CPI) and the producer price index (PPI), are highly volatile, making it dangerous to place too much emphasis on numbers from any one month. Confusing the issue even more, these indexes can give mixed signals.

The PPI measures prices received by factories and other producers. Over the past two months, the PPI has clearly signaled an easing of inflation pressures. After the transitory shock food and energy applied in January — the result of bitterly cold December weather which destroyed crops while straining fuel supplies — inflation as measured by the PPI has stabilized.

Conversely, inflation, as reported by the consumer price index, has some analysts deeply concerned. The CPI measures inflation by the cost associated with an urban family's purchase of goods and services. In January, the CPI also fell victim to the food and energy shock, but expectations were that future levels would be milder. Another unexpected shock arrived in February, this time in the form of soaring apparel prices. In March, apparel prices rose sharply again, accompanied by higher-than-expected increases to service sector purchases, especially medical costs.

The important point is that recent increases to the CPI index are mainly the result of transitory shocks. Already price drops are being observed in both food and energy. Clothing prices are likely to show a sharp drop when March or April numbers come in. The reason: an earlier-than-usual introduction of spring and summer clothing was not accounted for by the Department of Labor's seasonal adjustment factor.

One of the reasons the PPI and the CPI differ is that the PPI does not include the cost of services. The real problem with inflation lies in the service sector. Since 1982, price increases for consumer services have exceeded advances in consumer commodities by about 2% each year. Medical costs continued their ascent in March, and over the past year have risen 8.6%. Wages and benefits are also working to stimulate price pressures in the service sector.

Industrial prices were down slightly in March, chiefly because of the price drop in energy supplies. Foundry and forge shop products, construction materials, textile mill products, nonferrous metals, copper and brass mill shapes, and plastic resins and materials showed slight increases. Declines were reported for synthetic fibers, gasoline, residual fuel oils, inorganic and organic chemicals, and flat glass.

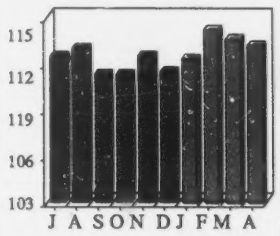
It appears that there are no inflation pressures building on the supply side. Unless the economy picks up significantly, leading to a greater-than-expected increase in demand, expect prices to level off once the early-year shocks work their way out of the system.

Industrial prices

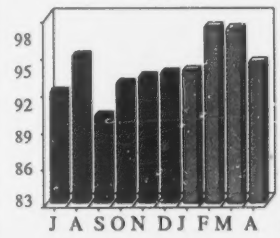
(Index: 1982=100)

■ 1989 ■ 1990

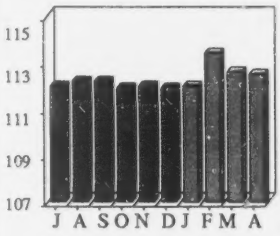
All industrials



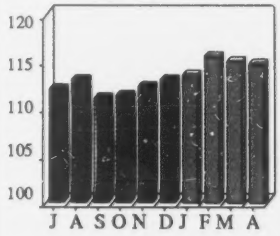
Raw materials



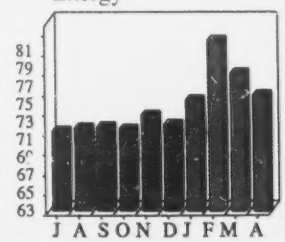
Semifabs, components



Finished goods



Energy



Source: Bureau of Labor Statistics

Machine tool orders

After five months of relatively no change, machine tool orders in March rose to $265.9 million, a 36.6% increase over February's $194.55 million level. Though machine tool orders finished the first quarter strong, compared to 1989 quarter one they were down 17.6%.

For the time being, shipments remain solid; up 7.8% in March from February and up 13.9% year-to-date. However, the steady growth in shipments over the past 18 months, driven by the big order surge of 1988 and early 1989, may be fading. Whether new orders pick up the slack is yet to be seen. Compared to March 1989, 1990's shipping level was down almost 6%.

Machine tools include lathes, as well as complex machines, many of which are computer controlled. They are used in cutting or shaping operations. As such, they serve as a good indicator of factory investment.

To some, the less-than robust machine tool spending is very troublesome. Domestic durable goods manufacturers still aren't buying machinery as aggressively as they once were. President Albert W. Moore stated, in the latest news release from the NMTBA, "we are concerned about our domestic manufacturing base. America's apparent reluctance to invest in the face of strong global competition contrasts with foreign manufacturers—who are investing heavily, in modern, productivity-improving machines. Foreign manufacturers invest while we in America sit on our wallets—steadily losing competitiveness."

Recent capital spending forecasts are not very optimistic about a domestic acceleration in machine tool investment either. According to the Commerce Department's latest survey, capital spending overall is expected to rise 7.8% in 1990. Durable goods producers, however, who purchase the majority of machine tools, are expected to increase investment only 2.1% above last year's level.

PROCUREMENT STATUS REPORT

Turning point in NAPM index

The latest release of the National Association of Purchasing Management provided additional ammunition for inflation hawks. The trouble is inflation fighters are looking only at that information which supports their position.

The survey, representing approximately 300 corporate buyers, reports an economy pulling out of a slow growth period. It is a far reach at this time to conclude anything more. The NAPM index rose above 50 for the first time in 12 months, symbolizing an expanding economy, as seen by the survey participants. The question is, how expansionary is an index of 50.2%. The direction of the index is clear—things are not as bad as they were. Whether the 50.2% index represents a turning point toward an accelerated take off, remains to be seen.

The big picture still supports a buyer's market. Indications are, that though economic activity has picked up, prices will remain stable. Purchasing managers reported prices for industrial raw materials to be up slightly in April. This, however, after a year of falling raw material prices.

There appear to be no supply pressures building at the production level. According to the buyers, orders hit a 14-month high in April. Given this and the fact that inventories have been kept under control since the beginning of the economy's slow growth period, an increase in factory activity is not surprising. Capacity utilization rates certainly aren't peaking and the producer price index shows no signs of altering its gradual descent.

Not surprising, most commodities remain well-supplied and purchasers report no delivery troubles. According to NAPM survey participants, deliveries from suppliers quickened again in April, with leadtimes for production materials, capital expenditures and MRO supplies falling. On the NAPM short supply list were, most notably, timber, bearings, castings, soda ash, caustic soda and hydrogen peroxide.

Purchasing managers reported lower prices for steel, plastic resins, fuel oil, natural gas and stainless steel, but higher prices were said to exist for copper, aluminum, polypropylene, zinc and nickel. PW Predicts section explains why the outlook is bright for these commodities recently displaying higher prices.

Though the economy's output level shows improvement, it is still below the long-run trend. Statistically, when the margin (current output) is below the average (long-run output trend level), there exists no upward pressure on supplies. Industry operating rates will display some rise, but they should remain below the 85% beacon, traditionally standing as the median between a buyer's and sellers' market. Expect the buyers' market conditions now in place to remain.

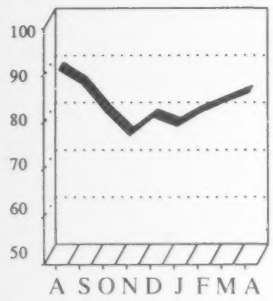
Collective bargaining

In 1990, nearly 36 percent of the unionized work force will see their contracts expire. Of all months, June will be the most active. For collective bargaining agreements covering 1000 workers or more, over 185 situations, representing more than 583,000 workers, expire this month. In terms of workers, this represents roughly 30% of this year's total.

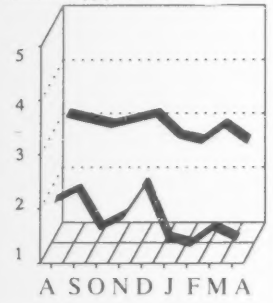
New contract settlements in 1989 provided for larger wage adjustments over their life than the contracts they replaced, the first time since

Steel

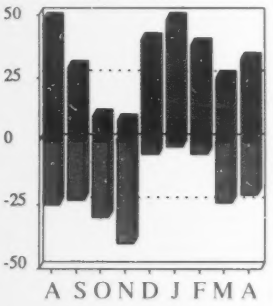
Operating rates



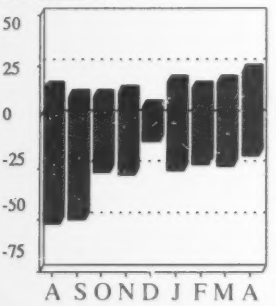
Inventories
(Months supply on hand)



Demand (STEEL SERVICE CENTERS)
(Percent of respondents)



Demand (STEEL BUYERS)



Source: Steel Service Center Institute
NAPM Steel Buyers Committee

1981. The average wage and salary increase was 3.6%. This was a substantial rise over most settlements during the previous 9 years, due primarily to restoration of previous wage cuts in steel, labor supply shortages in health services and generous benefits in areospace.

Unions won no big battles during the 1980s, and its unlikely, even if the economy begins to pull itself out of a period of slow growth, that labor will experience great success now. Nevertheless, June will be an exciting month for the following sectors:

	Situations	No. of workers
Metal mining	1	3400
Construction	23	40000
Apparel	1	2800
Paper and allied products	3	4220
Primary metal industries	2	2300
Maritime	4	22500
Transportation equipment	3	22650
Industrial and commercial machinery	2	6200
Electric, gas and sanitary services	6	15237
Services	5	13650
Finance	1	4500

STEEL SCENE

First quarter is favorable

Steel shipments from mills to the four major end-markets varied during the first quarter, with construction and service centers performing better than expected. In April, autos and machinery also showed a pick-up in new order activity.

Shipping levels by the nation's steel service center industry, which accounts for over 20% of all direct purchases, were up 4.6 percent over fourth quarter 1989.

Import prices
(Compared to domestic)

Steel buyers
ABOVE 58%
SAME 28%
SLIGHTLY BELOW 14%
SUBSTANTIALLY BELOW 0%
SERVICE CENTERS (carbon)
ABOVE 4%
SAME 70%
5-10% BELOW 26%
10-20% BELOW 0%
OVER 20% BELOW 0%

Even more impressive, since the first two quarters are usually the bellwether for steel service centers, the daily shipping rate for all products in the first quarter of 1990 exceeded 1989's first quarter level by 1.5 %.

According to the latest survey of the Steel Service Center Institute (SSCI), Cleveland, 90% of the members polled now expect general economic activity to hold steady or increase next quarter. Andrew G. Sharkey, SSCI president, commented, "In aggregate, metal consumption has been much greater through the first three months than most steel service center executives anticipated. Based on the strength of the first quarter, many are upgrading modestly their forecasts for 1990."

Though automotive demand was sluggish during the first three months of 1990, many industry analysts believe the worst is over. In fact, the Philadelphia researchers at Wharton Econometric Forecasting Associates (the WEFA Group) anticipate a 20% uptick in auto output during the second quarter.

A large portion of manufacturing outside of autos also seems to be gaining momentum. Moreover, significant backorders for durable goods, excluding defense, exist at the national level.

Construction, by WEFA estimates the largest end-consumer of steel products, accounting for 27-30% of total consumption, saw a 12.1% increase in January *versus* a year-ago. The major reason for this advance—favorable weather. Though this pace is unsustainable, new construction plans should promote solid demand from this sector, throughout 1990.

The inventory-to-shipment ratio for producers climbed to 2.35 months in

February, the second highest level in approximately four years. This level, however, is not as bad as it initially appears. Producers made a strong attempt in the fourth quarter of 1989 to reduce stocks and the holding positions of the major buying sectors appear quite good.

Therefore, though producers' stocks are higher-than-desired, the system overall is in good shape. In fact, the pick up in buyers orders should be enough to lower producer inventories while simultaneously stimulating a step-up in production.

This month's breakdown

Index 1982=100

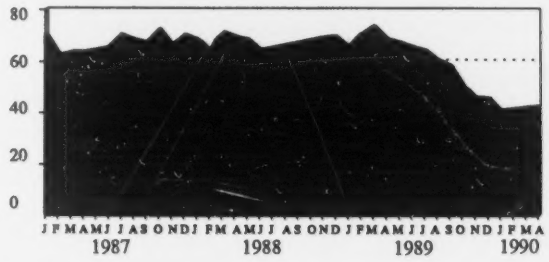
	Latest level	% change from: month ago	year ago
Bearings	130.1	0.0	5.1
Bolts, nuts, etc.	116.0	0.4	6.4
Chemicals, inorganic	111.0	-0.4	3.1
Chemicals, organic	111.5	-0.9	-6.5
Concrete products	112.3	0.1	1.4
Corrugated cartoons	110.7	-1.1	-1.2
Cutting tools, small	112.9	0.1	3.1
Electrical lamps (bulbs)	130.5	0.2	5.2
Electronic components	118.4	-0.1	-1.0
Fans and blowers	122.5	0.3	4.3
Foundry and forge products	116.5	0.8	2.1
Fuel oil (residual)	55.2	-0.7	26.9
Furniture, commercial	132.4	0.0	3.9
Gasoline	65.8	-2.1	11.3
Glass, flat	108.1	-0.6	-1.5
Glass containers	119.5	0.3	5.0
Gypsum products	106.4	0.4	-3.4
Hand tools	133.9	0.5	5.8
Hand tools, power driven	120.1	0.0	3.5
Industrial furnaces	126.8	0.2	3.3
Integrating and measuring instruments	125.8	0.8	7.7
Internal combustion engines	117.6	0.0	4.3
Lubricating oil	116.1	0.4	8.9
Lumber millwork	129.8	0.4	2.8
Material handling equipment	113.9	0.3	3.5
Metal containers	114.8	1.4	4.6
Metal mill shapes (nonferrous)	130.0	0.5	-8.0
Metal tanks	113.7	-1.8	3.4
Motors and generators	132.8	0.5	3.3
Motor trucks	130.7	0.2	1.3
Office and store equipment	110.7	-0.3	1.5
Paperboard	138.5	0.1	-1.4
Paper boxes and shipping containers	130.7	-0.4	1.7
Paper office supplies	120.9	-0.3	-0.2
Paint	123.1	0.6	4.6
Plastic resins	122.5	1.2	-12.9
Precision measuring tools	128.6	1.3	2.6
Pumps and compressors	117.7	0.0	3.6
Refactories	122.1	0.5	2.4
Rubber belts and belting	119.5	1.9	7.6
Scales and balances	108.7	0.6	2.4
Steel products	112.7	0.0	-1.7
Switchgear	123.4	0.7	4.4
Textiles, synthetic fibers	107.4	-0.5	5.7
Textiles, gray fabrics	118.0	-0.2	3.5
Tires and tubes	97.2	1.3	0.1
Transformers and power regulations	120.6	0.4	4.0
Welding equipment	125.9	0.2	3.5
Wire and cable	140.6	2.0	-5.0

NAPM procurement trends

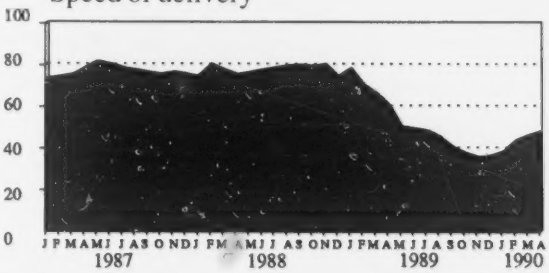
(Seasonally adjusted diffusion indexes)

An index where 50 is defined as the neutral level, to the extent a reading is above 50, it represents an expansionary tendency. More particularly, rising inventory prices, and new orders are seen as positive signs of economic growth. A trend toward s lower deliveries is similarly interpreted.

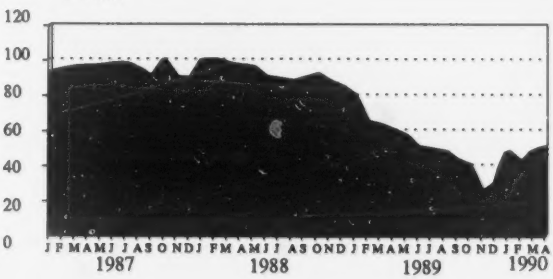
Inventories



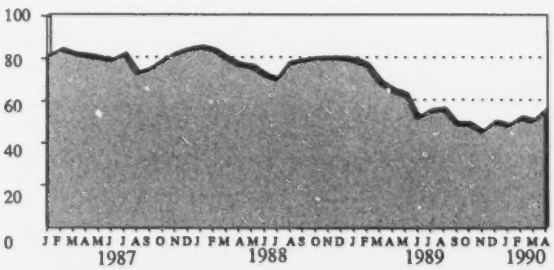
Speed of delivery



Price



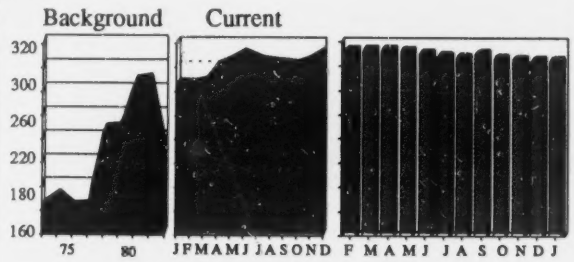
New orders



Raw material price barometer

(Index 1967=100)

Last month 304.0
Month before 301.1
Year ago 334.6



Latest spot market prices

	Latest price	Previous month	Year ago
FERROUS METALS			
Pig iron, basic, valley, gross ton	213.00	213.00	213.00
Pig iron, Bessemer, Pitts., gross ton	213.00	213.00	213.00
Steel, billets, Pitts., net ton	367.00	367.00	367.00
Steel, structural shapes, Pitts., cwt.	23.90	23.90	23.90
Steel, structural shapes, Chi., cwt.	23.90	23.90	23.90
Steel, structural shapes, Los Angeles, cwt.	23.90	23.90	23.90
Steel, bars, dlvd, Phila.,cwt., merchant quality	18.70	18.70	18.70
Steel, bars, Pitts., cwt.	18.70	18.70	18.70
Steel, bars, C.R., Pitts., cwt.	23.95	23.95	25.20
Steel, plates, Pitts., cwt.	23.25	23.25	23.25
Steel, plates, H.R., Pitts.,cwt.	23.25	23.25	23.25
Steel, sheets, C.R., Detroit, cwt.	30.65	30.65	29.65
Steel, strip, C.R., Chi., cwt	36.18	36.18	36.18
Steel, basic wire, Pitts., cwt.	23.65	23.65	23.65
NONFERROUS METALS			
Aluminum, ingot, lb.(market place)	0.71	0.73	0.94
Antimony, N.Y., dealer, lb.	0.85	0.84	0.99
Beryllium-copper, cost ingot, lb.	5.90	5.90	5.90
Brass, red, 85%, (sheet), lb.	1.88	1.88	2.13
Brass, yellow, (sheet), lb.	1.84	1.84	2.09
Cadmium, N.Y., dealer, lb.	4.40	4.40	7.10
Copper, electrolytic, wire bars, refd., lb.	1.31	1.25	1.50
Copper sheet, over 24 in., lb.	1.97	1.97	2.22
Lead, common, N.Y., lb.	0.56	0.56	0.35
Magnesium, pig ingot, (99.8%), lb.	1.63	1.63	1.63
Mercury, 20 fl. lots, N.Y., fl.	285.00	285.00	295.00
Molybdenum, oxide, dealer, lb.	3.22	3.22	3.72
Nickel, cathode, dealer, lb.	4.25	4.25	6.98
Platinum, dealer, oz.	479.00	475.00	523.00
Silver, N.Y., oz.	5.07	4.98	5.80
Tin, N.Y., dealer, lb.	3.04	2.92	4.40
Zinc, prime west, East St. Louis, lb.	0.83	0.80	0.90
Zinc, die casting alloy, No. 3, lb.	0.91	0.89	0.98
PAPER			
Uncoated book #3 offset, ton	940.00	940.00	1020.00
Watermarked bond, ton	1090.00	1090.00	1095.00
Gummed sealing tape, carton	19.02	19.02	18.86
Solid bleached paperboard, ton	830.00	830.00	730.00
Kraft linerboard, 42 lb., unbleached, ton	410.00	410.00	410.00
TEXTILES			
Burlap, 10 oz., 40", N.Y., yd.	0.29	0.29	0.28
Cotton drill, 1.85, 59", 68x49, N.Y., yd.	1.24	1.24	1.22
Cotton middling, 1", N.Y., lb.	0.71	0.71	0.60
Printcloth, 48", 80x80, N.Y., spot yd.	0.50	0.50	0.50
Army duck, 37", 13 oz., yd.	1.49	1.49	1.50
Blended printcloth, 64", 78x54, yd.	0.76	0.76	0.75
20s combed yarns	1.85	1.85	1.80
Wool 64s, staple, lb.	3.00	3.00	3.75
CHEMICALS			
Acrylonitrile, tanks, lb.	0.35	0.35	0.40
Ammonia, anhydrous, tankcars, Gulf Coast, ton	81.50	95.00	123.00
Benzene, petroleum, tanks, Houston, gal.	1.28	1.25	1.50
Caustic soda, 76% solid, drums, carlots, cwt.	28.00	28.00	28.00
Cresylic acid (over 25%), tanks, lb.	0.55	0.55	0.55
Formaldehyde, USP, 37%,(12%-15% meth.),, tanks, lb.	0.13	0.13	0.11
Glycerine, synthetic, tanks, lb.	0.80	0.80	0.79
Methanol, syn., tanks, 4000 gals., f.o.b. Gulf Coast plants	0.40	0.40	0.52
Naphthalene, crude, tanks, lb.	0.17	0.17	0.16
Phthalic anhydride, tanks, lb.	0.33	0.33	0.41
Polyethylene resin, low density, liner film grade (market place), lb.	0.38	0.38	0.49
Polypropylene, homopolymer grade (market price), lb.	0.37	0.37	0.46
Polystyrene, general purpose grade (market price), lb.	0.49	0.49	0.59
Polyvinyl cholride, pipe grade,, (market price), lb.	0.31	0.31	0.44
Soda ash, 58%, light carlots, cwt.	6.15	6.15	6.15
Styrene monomer, 99.6%, tanks, lb.	0.38	0.38	0.49
Sulfur, crude, ex-terminal, Tampa, FL, lt.	123.00	123.00	142.00
Sulfuric acid, 66%, commercial, tanks, ton	69.75	69.89	66.86
Titanium dioxide, anatase, reg., carlots lb.	1.02	1.02	0.95
Xylene, Gulf Coast, spot, barge, gal.	0.90	0.87	0.95
BUILDING MATERIALS			
Lumber, 2x4 fir, mbf, cl	354.22	350.78	326.95
Lumber 2x2 pine, mbf, cl	333.38	327.20	321.47
Plywood, plyform, 3/4", msf, cl	658.58	638.00	570.00
Plywood, 5/8", msf, cl	379.25	400.57	370.22
Cement, bulk, ton, tl	62.72	62.72	63.88
Sand, ton, cl	6.97	6.97	7.17
Ready-mix concrete, 3000 psi/cu. yd.	47.95	47.95	48.81
Crushed stone, 1.5", ton, cl	6.43	6.40	5.84
Concrete blocks, sand/gravel, 8"x8"x16"., per hundred	91.64	91.64	87.17
Reinforcing bars, whse base; per cwt.	21.88	21.88	21.32
Asphalt paving AC-20	108.01	108.01	108.53
Concrete sewer pipe, 24", prem. joint,, per ft., cl	17.91	17.92	17.90
FUELS			
Crude oil (W. Tx. Int. Cush), bbl.	18.60	20.30	20.40
Diesel (reseller rack, Chi.), gal.	0.55	0.57	0.51
Feul oil No. 2 (N.Y.), gal.	0.58	0.59	0.56
Fuel oil No. 2 (Gulf spot), gal.	0.51	0.53	0.48
Fuel oil No. 6 (N.Y.) contract cargo, bbl.	20.50	20.50	18.75
Gasoline (prem unlded N.Y.), gal.	0.71	0.72	0.70
Gasoline (reg unlded N.Y.), gal.	0.64	0.65	0.59
Kerosine (reseller rack, Chi.), gal.	0.64	0.65	0.60
Propane (Mt. Belvieu, TX), gal.	0.24	0.24	0.22
SCRAP MATERIALS			
Steel, No. 1, hvy., dlvd., Pitts., ton	103.00	103.00	114.00
Steel, No. 1 hvy., dlvd., Chi., ton	110.00	110.00	113.00
Copper, No. 1, East, wholesale buy, dlvd., lb.	1.07	1.15	1.19
Copper, No. 2, East, wholesale buy, dlvd., lb.	0.97	1.06	1.12
Brass, red, East, wholeale buy, dlvd., lb.	1.10	1.10	1.16
Brass, yellow, East, wholesale buy, dlvd., lb.	0.57	0.57	0.61
Alum., old sheet/cast, E., wholesale buy, dlvd., lb.	0.51	0.51	0.65
Alum., mixed clip., E., wholesale buy,, dlvd., lb.	0.56	0.51	0.72
Zinc, old East, wholesale buy, dlvd., lb.	0.30	0.30	0.38
Lead, clean solids, East, wholesale buy, dlvd., lb.	0.24	0.24	0.23
Paper, No. 1 mixed, dlr., N.Y., ton	Nom.	Nom.	Nom.
Paper, old corrug. box, dlr., Chi., ton	Nom.	Nom.	Nom.
Paper, old corrug. box, dlr., N.Y., ton	Nom.	Nom.	Nom.
Old newspapers, Chi., ton	-20.00	-20.00	Nom.
Old white ledger, Chi., ton	75.00	75.00	75.00

[Sources: Metals week, American Metal Market, Engineering News-Record(20-city averages), The Wall Street Journal, Journal of Commerce, Chemical Marketing Reporter.]